

SOCIAL ENTREPRENEURSHIP PROGRAM (SEP)

PROJECT SUMMARY

1. **Country:** Regional
2. **Project Number:** RG-S1003
3. **Project Name:** Regional Social Enterprise Loan Fund
4. **Borrower:** Pomona Impact LLC
TC Executing Agency: Pomona Trabajo en Cooperación y Compañía Limitada, S.A.
5. **IDB Unit:** Multilateral Investment Fund (MIF)

6. Financing Amounts

	<u>IDB US\$</u>	<u>LOCAL US\$</u>	<u>Total US\$</u>
Reimbursable Financing:	1.000.000	500.000	1.500.000
Technical Cooperation:	<u>200.000</u>	<u>172.000</u>	<u>372.000</u>
Total:	1.200.000	672.000	1.872.000

7. Project Impact and Results:

The expected impact of the project is to contribute to sustainable job creation, revenue growth and direct beneficiaries of the project portfolio companies (social enterprises). The expected result is increased access to financing and business consulting for social enterprises operating in Central America, Mexico, Colombia, and Ecuador (the target region). The project will help to bolster the capacity of Pomona Impact to directly invest in and provide business support to social enterprises, helping them obtain urgently-needed financing and better positioning them for future capital raising from other investors and/or banks. This will not only help grow the number and quality of social enterprises, but will also provide a demonstration effect proving the business case for providing financing to these businesses.

8. Project Components:

- ***Reimbursable Financing***

The **Loan Component** will be utilized exclusively to invest in selected social enterprises in the target region. The investee companies will be selected using the selection criteria agreed upon between Pomona Impact and the IDB/MIF, detailed in the project technical files. It is expected that a total of 7 to 10 social enterprises will receive funding during the project and that total disbursements to investees will reach US\$1.5 million. Investment sizes will range from \$15,000 to US\$250,000, with an expected average investment of US\$125,000. The investments will be made in US Dollars, using the following four financing instruments:

mezzanine debt, simple senior debt, demand dividend or equity¹, depending on the needs of each investee company. The majority of the investments will be long-term (2 to 8 years) which reflects the patience required in funding early- and growth-stage social enterprises. While this fund will finance social enterprises in all sectors, Pomona Impact will seek to target social businesses accelerated under MIF's project with Agora Partnerships (RG-M1294) and focused on tackling social and/or environmental problems, with an emphasis on basic services where possible. Pomona Impact will lend the funds at annual interest rates between 4% and 18%, and in some cases will also participate in the upside of the company via a revenue share, EBITDA share, or profit share, which will be determined in each deal.

- ***Non Reimbursable Technical Cooperation***

Through the **Technical Cooperation Component**, "Pomona Trabajo en Cooperación y Compañía Limitada, S.A." will carry out a series of interrelated activities that will strengthen the business management of the project's portfolio companies, bolster Pomona Impact's capacity to channel financing and other business services to the social enterprise sector in the target region, and to generate a strong pipeline of investable social enterprises. The key activities to be financed under this component include: (i) technical assistance, training and business advisory services to portfolio companies, provided by external experts and also by Pomona Impact personnel; (ii) the participation of portfolio companies in regional impact investing events; (iii) enhancement of the Pomona Impact website and the hiring of a new person to design, market and implement a series of social enterprise acceleration and training events and programs; (iv) promotional meetings in strategic cities throughout the region to promote the company's activities and investments, and to increase deal flow; (v) participation of Pomona Impact staff in regional and international impact investing events; (vi) the design and implementation of an AgTech Accelerator to identify and support new social entrepreneurs who are building businesses related to Agriculture Technology; and (vii) activities related to the monitoring, evaluation and auditing of the project.

9. Project Beneficiaries The project's direct beneficiaries will be between 7 to 10 social enterprises that will receive financing in the form of mezzanine debt, simple debt, demand dividend, or equity (in rare cases) investments. The beneficiaries will be located primarily in the countries of Central America, with some possible investments in Mexico, Colombia, and/or Ecuador, which will depend on project deal flow. It is estimated that these social enterprises will provide incomes and employment to between 100 and 150 families and have a measurable impact on a wide range of social and environmental problems over the life of the project.² It is estimated that these portfolio companies will improve livelihoods of an estimated 2,000 low-income families via expanded access to financial services, markets, or basic services. Although not exclusively, the SEP funding to Pomona Impact will target social businesses accelerated under MIF's project with Agora Partnerships (RG-M1294) and focused on tackling social and environmental problems, with an emphasis on basic services where possible.

10. Expected Results and capture of benefits: The direct benefit from the Bank's resources will be captured by several groups: (i) the 7 to 10 early- and growth-stage social enterprises that will receive urgently-needed financing and business advisory services to grow their

¹ Equity will be used only in exceptional cases, and only with counterpart funds. It is expected that the majority of funds will be placed with mezzanine debt. The characteristics and terms of these financing instruments are explained in detail in the project technical files.

² Assuming that the average company will employ 15 employees.

business, and improve their management and operations. This financing and additional skills will position these companies to obtain future financing from banks, venture capitalists, private equity funds, and other large investors not currently investing in the missing middle; (ii) an estimated 100-150 families of the new employees that will begin to work in the investee companies, through additional employment and incomes; and (iii) an estimated 1,500-2,000 families who will benefit from the expansion of the products and/or services that the investee social enterprises will provide via expanded access to financial services, markets, or basic services such as health, education, alternative energy, and others.

Additionally, at the end of the three year project period, Pomona Impact will have consolidated its leadership in impact investing in the region, and will have reached profitability through the constant scaling of its investments. This will allow Pomona Impact demonstrate a strong track record that can be used to raise subsequent funds, and establish itself as a trusted source of financing for social enterprises in the region. In turn, this will allow Pomona Impact to fill the role of supporting investment-ready graduates of well-established accelerators, such as Agora Partnerships, who often still have difficulty raising capital upon graduation. In addition to increased access to financing for social enterprises, the project will concurrently contribute to the further development of the regional entrepreneurial ecosystem by encouraging entrepreneurship as a career choice and providing a demonstration effect that will help to prove the business case for financing early- and growth-stage social enterprises in a profitable manner.